# REPORT OF THE AUDIT OF THE FORMER MONROE COUNTY SHERIFF

## For The Year Ended December 31, 2010


## CRIT LUALLEN
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## EXECUTIVE SUMMARY

## AUDIT EXAMINATION OF THE
## FORMER MONROE COUNTY SHERIFF

**For The Year Ended**
**December 31, 2010**

The Auditor of Public Accounts has completed the former Monroe County Sheriff's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees increased by $6,439 from the prior year, resulting in excess fees of $12, 524 as of December 31, 2010. Revenues decreased by $14,513 from the prior year and expenditures decreased by $20,952.

**Report Comments:**

2010-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties
2010-02 The Former Sheriff Should Have Required Approval For All Deputies Timesheets

**Deposits:**

The former Sheriff's deposits as of December 8, 2010 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured $72,530

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Willett, Monroe County Judge/Executive
The Honorable Jerry Gee, Former Monroe County Sheriff
Members of the Monroe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Monroe County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2011 on our consideration of the former Monroe County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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The Honorable Tommy Willett, Monroe County Judge/Executive
The Honorable Jerry Gee, Former Monroe County Sheriff
Members of the Monroe County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2010-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties
2010-02 The Former Sheriff Should Have Required Approval For All Deputies Timesheets

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Monroe County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

March 29, 2011

MONROE COUNTY
JERRY GEE, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

| | | |
|---|---|---|
| Revenues | | |
| State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) | | $ 9,297 |
| State Fees For Services: | | |
| Finance and Administration Cabinet | $ 13,974 | |
| Sheriff Security Service | 2,652 | 16,626 |
| Circuit Court Clerk: | | |
| Fines and Fees Collected | | 1,270 |
| Fiscal Court | | 18,075 |
| County Clerk - Delinquent Taxes | | 6,007 |
| Commission On Taxes Collected | | 123,650 |
| Fees Collected For Services: | | |
| Auto Inspections | 7,475 | |
| Accident and Police Reports | 310 | |
| Serving Papers | 18,332 | |
| Carrying Concealed Deadly Weapon Permits | 2,340 | |
| Dog Tags | 120 | |
| Transporting | 1,530 | 30,107 |
| Other: | | |
| Sheriff's Add-On Fees | 19,752 | |
| Miscellaneous | 3,473 | |
| School Resource Officer | 19,722 | 42,947 |
| Interest Earned | | 605 |
| Borrowed Money: | | |
| State Advancement | 55,000 | |
| Bank Note | 13,000 | 68,000 |
| Total Revenues | | 316,584 |

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY
JERRY GEE, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

| | | | |
|---|---|---|---|
| Expenditures | | | |
| Operating Expenditures and Capital Outlay: | | | |
| Personnel Services- | | | |
| Deputies' Salaries | $ 88,988 | | |
| Court Bailiff | 10,348 | | |
| COPS Grant | 17,862 | | |
| KLEFPF | 8,783 | | |
| Contract Labor | 825 | | |
| Employee Benefits- | | | |
| Employer's Share Social Security | 2,027 | | |
| Employer's Share Retirement | 513 | | |
| Contracted Services- | | | |
| Advertising | 256 | | |
| Vehicle Maintenance and Repairs | 6,267 | | |
| Materials and Supplies- | | | |
| Office Materials and Supplies | 1,658 | | |
| Auto Expense- | | | |
| Gasoline | 20,873 | | |
| Other Charges- | | | |
| Postage | 88 | | |
| Training | 413 | | |
| Miscellaneous | 250 | | |
| Transporting | 164 | $ 159,315 | |
| Debt Service: | | | |
| State Advancement | 55,000 | | |
| Bank Notes | 13,000 | | |
| Interest | 641 | 68,641 | |
| Total Expenditures | | | $ 227,956 |
| Net Revenues | | | 88,628 |
| Less: Statutory Maximum | | | 76,104 |
| Excess Fees Due Fiscal Court at Completion of Audit | | | $ 12,524 |

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Monroe County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Monroe County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 8, 2010, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured $72,530

Note 4. Drug Fund

The former Monroe County Sheriff's office established a drug fund in February 1992 with funds received as the result of a drug investigation. These funds are to be used for drug enforcement and education. As of January 1, 2010 the drug fund had a balance of $348. During 2010, receipts totaled $1,176 and disbursements totaled $1,455. As of December 31, 2010, the drug fund balance was $69. This account has been transferred to the incoming Sheriff.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Willett, Monroe County Judge/Executive
The Honorable Jerry Gee, Former Monroe County Sheriff
Members of the Monroe County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Monroe County Sheriff for the year ended December 31, 2010, and have issued our report thereon dated March 29, 2011. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Monroe County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However as discussed in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-01 and 2010-02 to be material weaknesses.

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Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Monroe County Sheriff's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Monroe County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

March 29, 2011

# COMMENTS AND RECOMMENDATIONS

MONROE COUNTY
JERRY GEE, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

## INTERNAL CONTROL – MATERIAL WEAKNESSES:

### 2010-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Segregation of duties over receipts and disbursements or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets.

A lack of segregation of duties existed over the receipt and disbursement functions of the former Sheriff's office because of a limited number of employees were available to properly segregate these job duties. The bookkeeper posted all items to the receipt and disbursement ledgers, prepared and signed all checks, performed monthly bank reconciliations, and prepared the financial statements.

To adequately protect employees in the normal course of performing their duties, and/or prevent inaccurate financial reporting or misappropriation of assets, we note the former Sheriff should have separated the duties involving collection of cash, deposit of cash, disbursement of cash, preparation of monthly reports and journals, and reconciliation of the bank statement to the ledgers. If, due to a limited number of staff, that was not feasible, strong oversight over those areas should have occurred and involved an employee not currently performing any of those functions. Additionally, the former Sheriff could have also provided the oversight.

*Former Sheriff's Response:* No response.

### 2010-02 The Former Sheriff Should Have Required Approval For All Deputies Timesheets

During our review of payroll timesheets we noted the former Sheriff's bookkeeper prepared the timesheets for each employee. The employees initialed the timesheets indicating they agreed with the recorded time. However, there was no evidence of a supervisory review. An immediate supervisor or the former Sheriff should have reviewed and approved timesheets evidenced by a signature or initial.

*Former Sheriff's Response:* No response.